Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: April 27, 2018 **PAGES: 4**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	*+ $.0175*	$1.6200
Barrels	*- $.0125*	$1.4875
Weekly Average, Cheddar Cheese		
Blocks	*- $.0010*	$1.6195
Barrels	*+ $.0045*	$1.4860

CHICAGO AA BUTTER		
Weekly Change	*+ $.0450*	$2.3600
Weekly Average	*+ $.0605*	$2.3620
DRY WHEY		
Dairy Market News	w/e 04/27/18	$.2800
National Plants	w/e 04/21/18	$.2587

NON-FAT DRY MILK		
Week Ending 4/20 & 4/21		
Calif. Plants	$0.7042	17,495,461
Nat'l Plants	$0.7177	24,428,360
Prior Week Ending 4/13 & 4/14		
Calif. Plants	*$0.7033*	*15,720,588*
Nat'l Plants	*$0.7049*	*22,832,175*

***

Fred Douma's price projections…

April 27 Final:	**Quota cwt. $15.31**	**Overbase cwt. $13.62**	**Cls. 4a cwt. $13.29**	**Cls. 4b cwt. $14.27**
Last Week:	**Quota cwt. $15.29**	**Overbase cwt. $13.60**	**Cls. 4a cwt. $13.27**	**Cls. 4b cwt. $14.24**

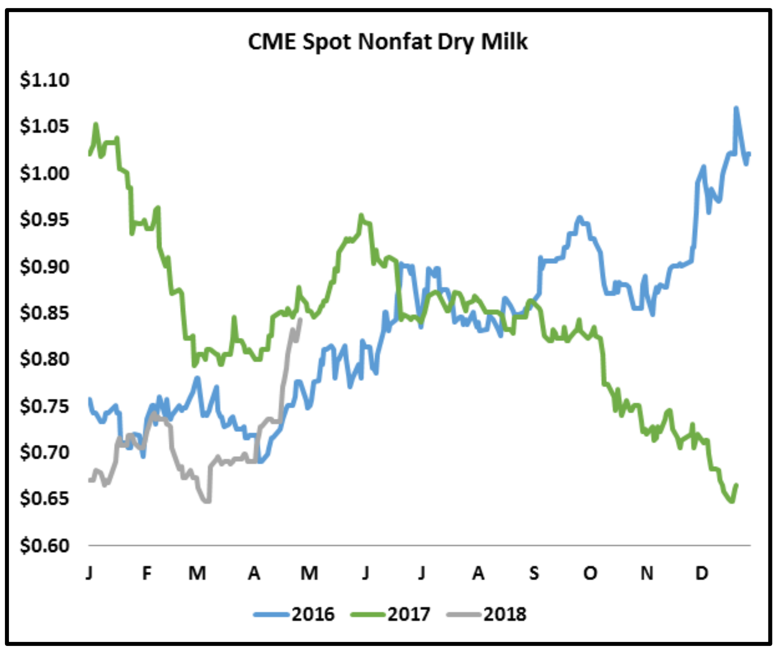
***

Market commentary

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

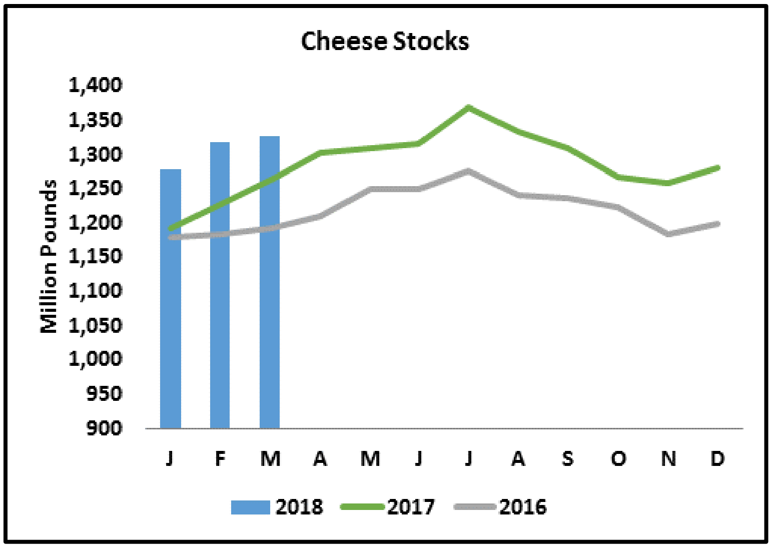
Milk & Dairy Markets

The bulls continued to bellow in the milk powder market. CME spot nonfat dry milk (NDM) climbed 3.75¢ to 84.25¢ per pound, a seven-month high. Butter was also stronger, rallying 4.5¢ to $2.36, a level not seen since mid-October. Most Class IV futures contracts settled 60¢ to 70¢ higher than last Friday. Class IV futures still lag their Class III counterparts, but the gap has narrowed substantially over the past few weeks. This helps to erode the advantage that dairy producers in the cheese states, like Wisconsin, hold over their competitors in regions with higher butter and milk powder output.



Class III futures finished a dime or so higher this week. The spot markets lacked conviction. CME spot Cheddar blocks added 1.75¢ and reached $1.62. However, barrels slipped 1.25¢ to $1.4875. Whey wavered and closed at 31¢, down a half-cent from last Friday.

Concerns about the duration and fortitude of the spring flush are boosting the dairy markets. It is finally starting to feel like spring in the Midwest and Northeast. Milk output is beginning to climb. But the tardy arrival of warmer temperatures is likely to reduce aggregate milk production. A late spring does not necessarily mean a late start for summer heat and humidity, so the flush will likely be compressed rather than just delayed. USDA's *Dairy Market News* reports, "For now, there is no indication of burdensome milk supplies in the East," a remarkable circumstance in late April. Meanwhile, output in California, New Mexico, and the Southeast is declining seasonally, making room for more milk at a time when national

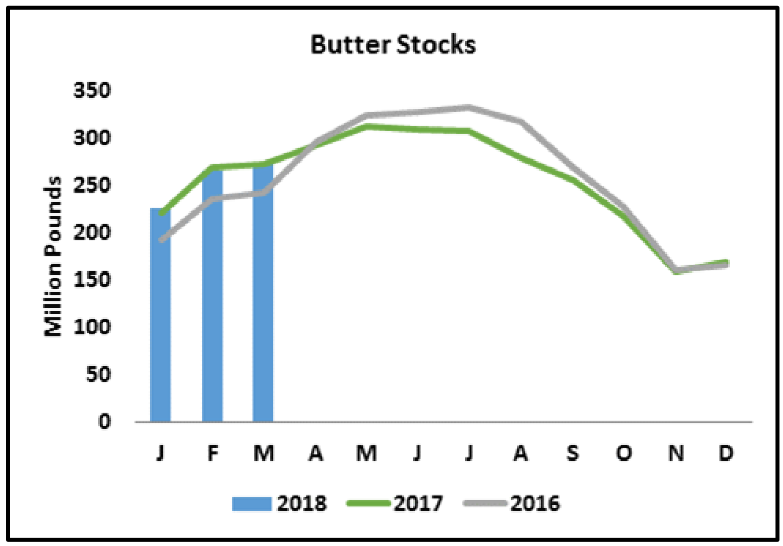


processing capacity is often strained.

The story is similar in Europe. *Dairy Market News* notes that in Germany in particular, "milk production is still high, but the frosty period in February and March lowered the growth. In total, there is less milk than dairy processors had planned. This keeps Western European dairy product availability in tighter supply than desirable."

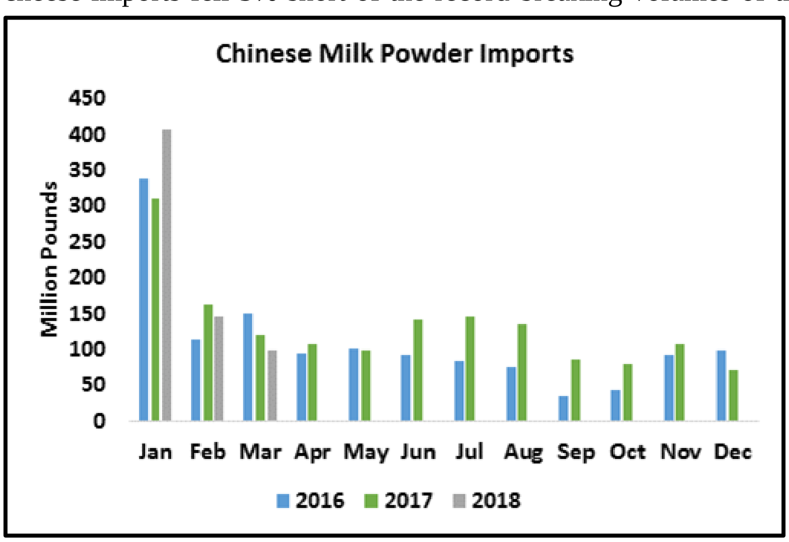
At the same time, dairy demand is growing at home and abroad. The foreign butter market is especially strong, boosting U.S. export prospects despite the rising dollar. International buyers are actively shopping for dairy products of all varieties, and those made in America are competitively priced.

Nonetheless, inventories of cheese, whey, and milk powder remain ample. There were 1.33 billion pounds of cheese in cold storage on March 31, up 5.2% from a year ago. That is plenty of cheese to be sure, but the month-to-month increase was smaller than the historic average, another sign of improved demand. Stocks of American cheese totaled 769 million pounds, down 0.4% from a year ago. The February-to-March increase was surprisingly small, which helps to explain the recent and sustained rally in the spot Cheddar market. Butter holdings totaled 273.6 million pounds at the end of March, up just 0.4% from a year ago.

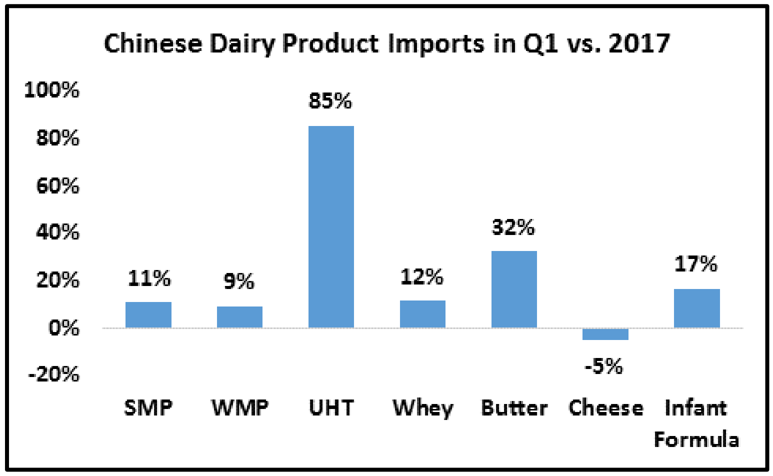


Chinese milk powder imports did not impress in March. However, that may be because buyers stocked up in January. China imported 60.2 million pounds of whole milk powder (WMP) last month, 17.4% less than last year and the smallest March volume since 2009. China's skim milk powder (SMP) imports fell 15.9% short of year-ago levels. But in the first three months of the year, China imported 9.3% more WMP and 10.9% more SMP than in the first quarter of 2017. In fact, milk powder imports are off to a stronger start than in any year aside from the record-shattering volumes of 2014.

Chinese cheese imports slipped to 15.4 million pounds in March, down 21.8% from a year ago. For the quarter, Chinese cheese imports fell 5% short of the record-breaking volumes of the first three months of 2017, but were higher than the January-through-March totals in every other year. China's imports of all other dairy products improved relative to last year in March. The increase in butter was most impressive, up 81.4% compared to March 2017. Relative to the first three months of 2017, China imported 11.5% more whey powder, 16.7% more infant formula, 32.3% more butter and 85.2% more ultra-high temperature (UHT) fresh milk.



In the high-stakes world of global commerce, Europe is hustling to expand its trade advantages. This week they updated their trade pact with Mexico, winning lower tariffs on a number of agricultural goods. The agreement expands non-tariff quotas or lowers tariffs on a number of cheese varieties and increases the milk powder quota. This does not erase the U.S.'s obvious geographic advantage with Mexico, but it does give U.S. merchants less room to negotiate. Perhaps of greater concern, Mexico conceded to Europe's ownership of 340 geographical indications for food names, some as generic as feta, gorgonzola, and fontina. For years, American cheesemakers have been selling these cheeses under their common names to customers in Mexico. Now Europe may hold a monopoly on those names, and U.S. exporters will have to spend additional resources marketing familiar cheeses to Mexican consumers who may not recognize them with new labels. Mexico's acquiescence could pave the way for other nations to grant Europe a stronghold on globally-recognized product names, to the detriment of cheesemakers in the U.S. and around the world.



Grain Markets

The corn market climbed nearly every day this week. The July contract settled at $3.985 per bushel, up 13¢ from last Friday. July soybeans gained 16.25¢ and closed at $10.5625. July soybean meal futures surged today to a new contract high of $395.30. They are up $16.70 for the week.

The sun is finally shining in the Corn Belt, and planters are rolling. The forecast holds some rain next week, but likely not enough to hamper fieldwork significantly. The trade believes farmers will be able to get the crop in on time despite the late start. U.S. winter wheat areas remain parched. Rainfall in Brazil's second-crop corn areas has also disappointed. The deferred forecast holds some rain, but yields are likely starting to slip.

Global soybean demand remains strong, and the U.S. and China will meet to talk trade next week. The soybean industry hopes that the two sides will resolve their issues and rescind threats for a tax on U.S. soy product shipments to China. Given the decimation in Argentina, U.S. soybeans won't have issues finding international buyers, but if the tariff is enacted, U.S. soybeans may have to move at a discount.

***

Decision time

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

It is crunch time – the decision on whether California joins the Federal Milk Marketing Order (FMMO) system will be made within the next few days. Because the three major cooperatives operating in California have decided to block vote for their members, the election results could become clear very soon.

Over the past three weeks there have been many meetings and much discussion about what an FMMO could mean for the California dairy industry. Here are a few things that strike me as significant differences between the FMMO and our current California state system.

First, the California system establishes a mandatory minimum price for all grade A milk produced and marketed in the state. That sounds good to producers, no one can pay less than the minimum, but the consequence of having the state government enforce a minimum price is that they have deliberately set those prices at lower levels than the prices paid for milk outside of the state. The FMMO system sets prices at higher levels, but if that milk is not associated in some way with the class 1 market, it does not enforce those higher prices on manufacturers. For producers to receive those higher prices, they and their cooperatives will have to contractually negotiate those higher prices from the buyers. Is it reasonable to expect that this will happen? All we can rely on is the experience of producers in the current FMMO system. What that experience tells us is that if the milk supply is in balance with demand, then those prices and more are attainable.

The second big difference is the ability of the FMMO to regulate milk coming into California from out of state. Over the years there has been a measurable amount of the milk used for class 1 in California that completely escaped state regulation because of the constitutional prohibition of states regulating interstate commerce. The California FMMO also does away with the producer funded transportation subsidy program. There is a location differential system used in the FMMO system to attract milk to the population centers which will have implications for how milk moves in California. On balance, it seems that the ability of the FMMO system to capture the value of that class 1 revenue for the California pool will mean more dollars for California FMMO participants.

Another difference is our milk checks would look different. Payment is based on butterfat, protein, and other solids instead of butterfat and solids-non-fat. There is a Producer Price Differential and a location differential that comes into play when calculating milk checks that will also alter the way things look. The big question is will there be more money? I have seen and heard a number of different estimates made by economists. All these estimates show higher milk prices under an FMMO system. The ranges vary depending on the assumptions, but collectively we are talking about tens of millions of dollars more revenue for California producers annually.

At the end of the day what is the deciding factor for me? I started in the dairy business in 1979 as California production was skyrocketing. I testified at my first CDFA hearing in the mid 1980's. By then, California's cheap milk policy was firmly in place and I didn't like it. A level playing field is what I wanted. Did the California system offer some advantages? Clearly, we were able to build a huge industry here and the state system did not prevent and maybe deserves some credit for allowing that to happen.

As we look to the future it seems clear that we need California processors to pay us a competitive price for our milk if we are going to be able to survive the many challenges we face. What system best enables us to get that competitive price? That is the question. A no vote means we give up the opportunity to join the FMMO system and go back to CDFA without the leverage of having the option of going to an FMMO and see what changes we can get that may make things better. Or we can vote yes and join the same system that much of our producer competition in the rest of the country is operating under.

For what it is worth, I voted yes.

***